

Kenya – the financial services sector experiences significant growth

Joyce Mbui, senior associate, Banking & Finance & Alex Njage, partner, Real Estate and Construction in Bowman Gilfillan Africa Group's Coulson Harney office in Nairobi, Kenya

The Kenyan economy has experienced significant growth in the financial services sector recently. This growth can be attributed to, among others things, the introduction of new vehicles to promote investment.

Against the backdrop of the enactment of the Capital Markets (Real Estate Investment Trusts) (Collective Investment Schemes) Regulations, 2013 in October last year, the Nairobi Securities Exchange became the fourth African bourse to launch the Real Estate Investment Trust (REITs) market. The launch of REITs further enhances financial inclusion in Kenyan capital markets. Average investors belonging to the growing middle income segment will now be able to invest in large-scale commercial, residential and industrial properties, without requiring large sums of money.

Kenya's property market has seen exponential growth over the years. Kenya's property values have grown to become among the highest in the world. The spill-over effect of this is the high cost of developing new property. The market is facing extreme under-supply especially in housing for the lower segment of the populace. Investors stand to gain from both the income and capital appreciation of the portfolio of properties in which a REITs fund is invested.

The real estate sector also stands to benefit immensely. Groups and cooperatives will be able to invest in the market. Individuals will also be able to gain a stake in the real estate market, with investments of sums from as low as KES 5 000 depending on the structure of the specific REIT. Specialized REITs will be encouraged, especially those relating to low and medium cost residential properties. This will allow for more development of housing for this particular group. In addition, in order to further attract investors, REITS are exempt from certain taxes including stamp duty on the transfer of properties.

The Central Bank of Kenya Act has also been amended to allow retail investors to participate in the government debt market, in smaller denominations. In addition, bids can now be submitted.

Finally, to encourage confidence and enhance the positioning of Kenya as a premier investment destination, the Capital Markets Authority signed a memorandum of understanding with the Chartered Institute for Securities & Investment for the introduction of international certification standards in the industry.

All of these legislative changes have actively encouraged investment in the country.

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